

NZ Residential Rental Market

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Housing Market Failure?

Prepared by
Bob Hargreaves*

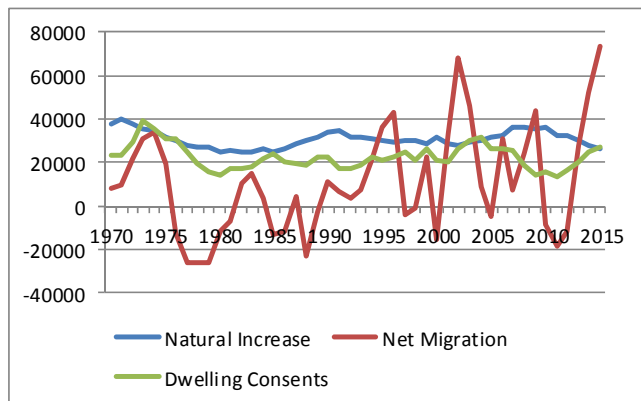
DATA SOURCE This publication has been developed from private sector rental data supplied by the Ministry of Business Innovation and Employment (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute and Quotable Value NZ statistics.

The National Picture

Recent publicity about increasing numbers of New Zealanders living in garages, tents, under bridges and in cars points to underlying problems in the housing market. The supply of housing is not matching demand, particularly in Auckland. Why is this and is it a new problem? Does past experience offer an understanding of the issues involved?

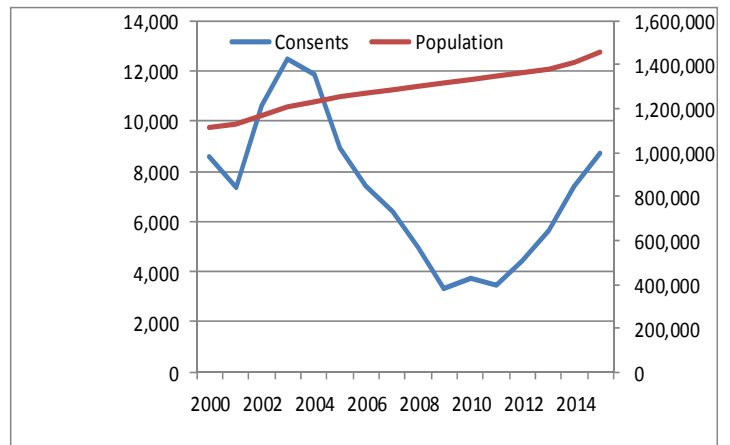
Overall the demand for housing is a function of changes in the population. For example, if the average occupancy rate per dwelling is 3 and the population is 4.5 million then this requires 1.5 million houses. If the population expands by say 105,000 in one year (net migration plus births less deaths) then 35,000 new dwellings are needed to maintain the status quo average occupancy per dwelling. The chart below maps the population drivers (live births less deaths, plus net migration) impacting on housing demand from 1970-2015.

Annual net migration is a very volatile statistic and has often moved from positive to negative. During the 2002-2007 housing boom in New Zealand net migration peaked in 2002 at 68,159, with building consents peaking two years later at 31,618. When building consents peaked housing demand had already reduced with net migration at 8610 in 2004 and by 2005 it was negative. Population volatility created major difficulties for builders because they could not increase/decrease capacity fast enough to cope with a sudden changes in demand. When the building industry finally increased housing supply to over 30,000 dwellings in 2004 demand had already dropped off because increasing numbers of New Zealanders were moving to Australia. Overbuilding put builders in a precarious financial situation and many left the industry. So why can't builders adjust quickly to changes in demand? This is a complex question but part of the answer relates to the time interval between the conception and completion of a new section and dwelling, currently at least three years.



The Auckland Picture

The housing market comprises a series of sub markets. The drift of population from south to north combined with recent immigrants preferring to live in a large city means the greatest demand pressure is in Auckland. The chart below maps dwelling consents (left hand scale) against the Auckland urban population (right hand scale). After peaking in 2004 Auckland dwelling consents continued to decline for the next five years. At the same time the population had increased by 86,800 indicating a shortfall of at least 25,000 dwellings in 2009. If the Auckland housing market had been responding to demand then annual new dwelling numbers should have increased substantially during the 2009-2015 period. Instead consent numbers continued to flat line until 2011 and has only averaged around 6000 over the last five years. The undersupply of new dwellings in Auckland combined with very low mortgage interest rates has resulted in a housing bubble and severe affordability issues for first home buyers.



Market Intervention

New Zealand's left leaning governments have a long history of intervention in the housing market. This came in the form of building large numbers of state rental houses in the 1930s. More recently the provision of low interest government loans encouraged first home buyers into new single family houses built by large scale private sector "group" builders. Both of these interventions encouraged suburban development, usually on the city fringe. Intervention encouraging further urban sprawl is likely to be a bad option, particularly in Auckland where there are major transportation issues and other infrastructure issues. The best option for Auckland is likely to be government financed low rise apartment/town houses sited along major transportation corridors.

Rental Trends

How might such a scheme work? A new government housing agency could be created. The new agency would be both a developer and a lender. It would source land, provide the apartment building plans and employ and supervise building contractors. It would then sell some of the apartments to first home buyers and provide these buyers with low interest mortgage finance. Some apartments would be retained by the new agency and rented. The agency would have considerable market power as their objective would be to provide large numbers of medium sized, predominately two bedroom apartments. Apartment buyers would be required to pay back the subsidised portion of their mortgage if they sold within five years.

Right leaning governments have a history of scaling back state housing, eliminating subsidised mortgage lending and letting the market look after the housing sector. Unfortunately it is this stop start approach combined with a relatively open immigration policy that has led to the present undersupply of housing and major affordability problems. It is argued by some that a lack of intervention has led to “intergenerational theft” meaning large transfers of wealth via capital gain to existing home owners at the expense of future home owners who will be saddled with excessive mortgage debt.

A major advantage in having a state agency operating in the apartment building sector is that it could take a longer term view and be less profit orientated compared with the short term view so typical of private sector developers who are reliant on expensive bank loans for bridging finance. This approach would go some way to moderating the boom and bust cycles so typical of the housing market in New Zealand over the last 40 years.

Rental Levels

The table at the top of the right hand column shows median rental changes over the last year and the last quarter, for the main urban centres, excluding Queenstown. The national level of median rent for May 2016 was \$385 per week, a new national high. Over the last twelve months the national median rent increased by \$25 per week or 6.9%. The largest annual percentage increase in market rents in the upper North Island were Tauranga (15%) followed by Whangarei (10%) and Hamilton (7.5%). Further south in the North Island significant annual increases in median rent included Palmerston North (11.5%), Napier (9.6%) and Wellington (9%). In the South Island the annual median rent in Christchurch decreased by 3.8%.

	May-15	Feb-16	May-16
Whangarei	300	320	330
North Shore	500	522	520
Waitakere	440	450	460
Auckland	470	485	495
Manukau	450	460	477
Papakura	430	440	455
Hamilton	330	350	355
Tauranga	365	395	420
Rotorua	270	280	285
Gisborne	285	280	290
Hastings	280	300	300
Napier	310	320	340
New Plymouth	330	350	337
Wanganui	220	220	220
Palmerston North	260	290	290
Kapiti	350	370	372
Porirua	360	385	360
Upper Hutt	290	300	295
Lower Hutt	335	340	330
Wellington	399	450	435
Nelson	330	330	350
Christchurch	395	400	380
Dunedin	270	310	275
Invercargill	230	230	247
All NZ	360	380	385

Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. Funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit to operate out of both Massey University’s Palmerston North and Albany campuses.

Massey University Real Estate Analysis Unit

The primary objective of the Massey University Real Estate Analysis Unit (MUREAU) is to provide reliable property information to the property industry, the land related professions and the public.

The Director of MUREAU is Professor RV (Bob) Hargreaves. MUREAU also offers a consulting service for individual clients. MUREAU publications available on the internet are:

- 1 The Home Affordability Report (Quarterly)
- 2 NZ Residential Rental Market Report (Quarterly)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU
 School of Economics and Finance
 Massey University, Private Bag 11.222
 Palmerston North
 Telephone: +64 6 356-9099 ext: 84064

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